



CANADIAN
BREWERIES
LIMITED

Annual Report
1972

CANADIAN BREWERIES LIMITED

ANNUAL REPORT 1972

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Les actionnaires qui préféreraient recevoir leur rapport en français sont priés d'en aviser le Secrétaire des Brasseries Canadiennes Limitée.

Directors

JOEL W. ALDRED	President Joel W. Aldred Limited Toronto, Ontario
E. NORRIS DAVIS	President Carling Brewing Company Incorporated Waltham, Massachusetts
JOHN LADD DEAN	Partner Hahn, Loeser, Freedheim, Dean & Wellman Cleveland, Ohio
MAJOR GENERAL SIR FRANCIS DE GUINGAND, K.B.E., C.B., D.S.O.	International Director of The Rothmans Group of Companies London, England
JOHN H. DEVLIN	Chairman and Chief Executive Officer Canadian Breweries Limited Toronto, Ontario
ROBERT H. HAWKES, Q.C.	President Rothmans of Pall Mall Canada Limited Toronto, Ontario
A. SEARLE LEACH	Chairman Federal Grain Limited Winnipeg, Manitoba
RENAULT ST-LAURENT, Q.C., LL.D.	Partner St-Laurent, Monast, Desmeules, Walters & Dubé Quebec City, P.Q.
JOHN E. SHAFFNER	Retired Executive
GEORGE C. SOLOMON	President Western Tractor Limited Regina, Saskatchewan
WILMAT TENNYSON	President Canadian Breweries Limited Toronto, Ontario
H. ALAN WALKER	Chairman Bass Charrington Limited London, England
SHELDON S WILSON	Director of Companies Beverly Hills, California

Officers

<i>Chairman of the Board and Chief Executive Officer</i>	JOHN H. DEVLIN
<i>President</i>	WILMAT TENNYSON
<i>Vice President Administration</i>	GEORGE A. D. STEWART
<i>Vice President Finance and Treasurer</i>	J. PETER ZACHARY
<i>Vice President Operations</i>	R. ROSS SERVICE
<i>Vice President Brewing</i>	LESLIE C. JESSOP
<i>Vice President Research and Technical Development</i>	DANIEL DI IANNI
<i>Secretary</i>	COLIN C. HENDERSON
<i>Comptroller</i>	RALPH L. BEATTY

Directors' Report

Consolidated Results

Consolidated earnings for the year ended June 30, 1972 (before extraordinary items) were \$8,630,000 compared to \$8,541,000 for the same period in 1971 (Per common share: 1972—29.7 cents; 1971—29.2 cents). After providing for extraordinary items, earnings amounted to \$6,625,000 compared to earnings of \$5,990,000 the previous year. (Per common share: 1972—20.5 cents; 1971—17.5 cents). Sales for the 1972 fiscal year were \$404,779,000 compared to \$396,210,000 for 1971. The results for 1972 include sales and earnings from your Company's investments in Doran's Northern Ontario Breweries Limited, Doran's Beverage Company Limited, Gramercy Holdings Limited and Star Oil & Gas Ltd., which were acquired during the year.

CONSOLIDATED RESULTS			
FINANCIAL YEARS ENDED	JUNE 30 1972	JUNE 30 1971	INCREASE (DECREASE)
Sales	\$404,779,000	\$396,210,000	2.2%
Net Earnings Before Extraordinary Items	\$8,630,000	\$8,541,000	1.0%
Net Earnings	\$6,625,000	\$5,990,000	10.6%
Per Common Share	20.5¢	17.5¢	17.1%

Before including results of new subsidiaries, sales and earnings for 1972 were less than 1971. Gains achieved in the Canadian and Irish brewing

operations were more than offset by a decline in sales and earnings of Carling Brewing Company Incorporated, your Company's United States subsidiary.

Extraordinary items charged against 1972 earnings were \$2,005,000 of which \$1,378,000 was attributable to the discontinuance of the keg bottle at Government requests, \$426,000 to a flood at the Baltimore brewery caused by Hurricane Agnes and \$201,000 to the final costs on the closing and sale of the Cleveland brewery.

It should be noted that in the 1971 comparative figures, foreign exchange losses have been reclassified as charges against earnings before extraordinary items and this had the effect of reducing the previously reported 32.0 cents per share for that year to 29.2 cents per share.

Brewing Operations—Canada

Net earnings from Canadian brewing operations for the 1972 fiscal year were \$7,114,000—an increase of 10.1 percent over 1971. Your Company's Canadian sales in 1972 amounted to \$237,128,000—an increase of 7.8 percent over sales for the previous year, due in part to the inclusion of sales, since acquisition, of Doran's and to beer price increases which went into effect during the year in Ontario, Quebec and British Columbia. Sales volume, which increased by 3.5 percent from 4,446,000 barrels in 1971 to 4,602,000 barrels in 1972, did not keep pace with the total Canadian beer market which increased by 6.5 percent for the period under review.

BREWING OPERATIONS—CANADA			
FINANCIAL YEARS ENDED	JUNE 30 1972	JUNE 30 1971	INCREASE (DECREASE)
Sales (barrels)	4,602,000	4,446,000	3.5%
Sales	\$237,128,000	\$219,911,000	7.8%
Net Earnings	\$7,114,000	\$6,459,000	10.1%
Earnings per Barrel	\$1.55	\$1.45	6.9%

Your Company's Heidelberg brand was originally introduced in the 1971 fiscal year in the unique keg shape bottle and excellent sales results were achieved in all markets where it was put on sale. At the request of Provincial Governments your Company agreed to remove the keg bottle from the Canadian market during the year under review. The estimated loss on disposal of these bottles, after adjustment for income taxes, was \$1,378,000 and this amount has been reflected as an extraordinary charge against earnings for the year. Although some loss of sales was experienced when Heidelberg was changed to the standard industry compact bottle, this brand continues to sell well and holds a significant share of the Canadian beer market.

Regular strength beer accounts for all but a very small part of the Canadian market. The last few years have seen the introduction of a number of products in the malt liquor category with a slightly higher alcohol content. Your Company's O'Keefe's Extra Old Stock Malt Liquor, introduced in British Columbia, Manitoba and Newfoundland in 1971, was put on sale in

Alberta during the year. Kronenbräu Deluxe Malt Liquor is competing well as your Company's brand in the malt liquor segment of the Quebec market. During the year under review lower than regular strength products have been introduced by the competition in British Columbia and Alberta and your Company is watching this development closely.

Calgary Export, long a favourite brand in Western Canada, was introduced in Toronto in 1971 and is now available throughout Ontario. Sales results to date have been very encouraging. Kronenbräu 1308 Golden Oak Mellowed Beer was introduced in Quebec City and its distribution is now being extended throughout Quebec Province.

Brewing Operations—United States

Carling Brewing Company Incorporated incurred an operating loss of \$774,000 for the fiscal year ended June 30, 1972 compared to a 1971 profit of \$626,000. Sales volume was 4,023,000 barrels for 1972—a decrease of 10.5 percent from 1971. The United States total beer industry

BREWING OPERATIONS—U.S.A.			
FINANCIAL YEARS ENDED	JUNE 30 1972	JUNE 30 1971	INCREASE (DECREASE)
Sales (barrels)	4,023,000	4,495,000	(10.5%)
Sales	\$148,253,000	\$167,167,000	(11.3%)
Net Earnings (Loss)	\$(774,000)	\$626,000	
Earnings (Loss) per Barrel	(19¢)	14¢	

increased approximately 5.6 percent in the same period. Sales of \$148,253,000 for 1972 were 11.3 percent less than for the same period in 1971.

Substantial savings were achieved through the closing of the Cleveland plant and the relocation of production to other Company plants. These savings plus other operating efficiencies and expense reductions implemented during the year were not sufficient to offset the effect of lower sales and earnings.

Brewing Operations—Republic of Ireland

Beamish and Crawford Limited continued its excellent growth and made significant sales gains

BREWING OPERATIONS—Ireland			
FINANCIAL YEARS ENDED	JUNE 30 1972	JUNE 30 1971	INCREASE (DECREASE)
Sales (barrels)	195,000	165,000	18.2%
Sales	\$12,819,000	\$9,132,000	40.4%
Net Earnings (Loss)	\$360,000	\$(160,000)	
Earnings (Loss) per Barrel	\$1.85	\$(0.97)	

during the year, especially in the ale and lager segments of the market. It is estimated that total industry beer sales in the market served by this subsidiary increased by 5.9 percent in the year ended June 30, 1972. Ale continued its rapid rise with an increase of 11.5 percent with lager increasing by 5 percent. Stout, which holds the predominant part of this market, increased by 3.5 percent. In this same period, sales of Beamish and

Crawford Limited rose to \$12,819,000—an increase of 40.4 percent over 1971. Earnings from operations for the 1972 fiscal year were \$360,000 compared to an operating loss of \$160,000 in 1971. In order to take advantage of the increasing demand for its products, major expansion of production facilities in Cork was commenced in 1972. The completion of this program is planned for 1973.

International

Your Company's sales of Carling Black Label in international markets continued to show excellent growth in 1972. Royalty income from franchise sales in the United Kingdom and Africa increased by 9.8 percent to \$569,000 for the 1972 fiscal year.

Acquisitions

As previously reported to shareholders, your Company purchased all of the outstanding shares of Doran's Northern Ontario Breweries Limited and Doran's Beverage Company Limited on August 31, 1971 for \$3,800,000 cash. Doran's operates four breweries in Northern Ontario with a combined capacity of 335,000 barrels. The brewing company operates only in Northern Ontario and its sales, which are predominantly draught beer, represent a major share of the market in this area. In addition to its own Doran's soft drink brands, the beverage company holds local franchises for Canada Dry, Orange Crush, Pepsi-Cola and Seven-Up. Combined sales of \$8,118,000 and earnings of \$301,000 for the ten month period since acquisition of the Doran's

companies have been included in the consolidated results of Canadian Breweries Limited for 1972. Earnings for the period were approximately 27 percent higher than for the corresponding period in 1971.

On February 29, 1972, your Company acquired 75 percent of the outstanding shares of Gramercy Holdings Limited for \$14,396,000 cash. The minority interest of 25 percent is held by Noah Torno, a minority shareholder of Gramercy for many years, who participated with Canadian Breweries Limited in obtaining the controlling interest from Distillers Corporation-Seagrams Limited. On terms established at the date of the initial acquisition, your Company is committed to acquire the remaining shares of Gramercy Holdings Limited.

Gramercy, through its Jordan, Villa and Danforth subsidiary operations, sells in all Provinces and Territories of Canada. Production is carried out in wineries at Jordan and St. Catharines, Ontario; Gimli, Manitoba and New Westminster, British Columbia which have a combined storage capacity of approximately 7,500,000 gallons with a further 1,000,000 gallons to be added in the 1973 fiscal year. With the exception of sales through nine Company-operated retail stores in Ontario, all sales are made through outlets operated by the Provincial Liquor Boards in Canada. Wine sales in Canada have increased substantially in recent years and Gramercy has gained a major share of this sales growth. Gramercy produces more than 50 brands of wine, including Jordan Crackling

Rosé, Belfontaine (a red table wine), Valley Still Rosé, Jordan Crackling Cold Duck and Jordan Extra Dry Champagne.

Earnings of Gramercy accruing to your Company for the four month period since acquisition were \$322,000 and have been included in the consolidated net earnings of your Company for the 1972 fiscal year. Sales for the four month period were \$4,845,000.

During the year under review your Company also made a substantial investment in the oil and gas industry. The purchase of all of the outstanding shares of Star Oil & Gas Ltd. (formerly Phillips Brothers Oil & Gas Ltd.) was completed in October, 1971 for a cash consideration of \$10,349,000. With the purchase of certain assets of a United States associate of Phillips Brothers and additional Canadian properties, your Company's total investment in oil and gas resources is \$13,577,000.

During the year, Star Oil participated in the drilling of 25 wells of which 18 were successful gas wells, 2 were successful oil wells and 5 were abandoned. At the year end, estimated gross proven reserves were 7,825,000 barrels of crude oil and natural gas liquids and 50.205 billion cubic feet of natural gas. The Company also holds substantial probable additional reserves and has interests in approximately 4,500,000 acres of undeveloped properties.

Sales of \$1,734,000 and net earnings of \$263,000 of Star Oil since acquisition have been included in the consolidated 1972 results of your Company.

In order to obtain the maximum benefits from this investment, an Edmonton, Alberta oil and gas consulting and management firm has been appointed to manage your Company's oil and gas interests.

Carlsberg/Tuborg

On March 17, 1972 your Company signed a long term agreement with United Breweries Limited of Copenhagen, Denmark. Under the terms of this agreement, Canadian Breweries Limited and its subsidiaries, Carling Brewing Company Incorporated (U.S.A.) and Beamish and Crawford Limited (Republic of Ireland) obtained the exclusive right to manufacture and sell brewery products under the trade mark names of Carlsberg and Tuborg in Canada, the United States and the Republic of Ireland. In addition, United Breweries Limited agreed to make available to your Company all its extensive brewing research and technical knowledge. Carlsberg and Tuborg are two of the best known and most respected names in world beer markets and it is expected that this agreement will be very beneficial for Canadian Breweries Limited.

Balance Sheet

Due mainly to the expenditure of \$28,545,000 on the acquisition of new subsidiaries, Star Oil & Gas Ltd., Gramercy Holdings Limited, Doran's Northern Ontario Breweries Limited and Doran's Beverage Company Limited, the working capital position decreased during the year from \$85,498,000 to \$68,866,000 at June 30, 1972. With a current assets to current liabilities ratio of

2.2 to 1 your Company remains in sound financial condition. Expenditures on property, plant and equipment for the year, in addition to assets acquired through the purchase of new subsidiaries, amounted to \$16,292,000. Of this amount, \$11,896,000 was spent on facilities and equipment in the brewing operations—\$8,397,000 in Canada, \$2,549,000 in the United States and \$950,000 in the Republic of Ireland; \$4,171,000 for additional oil and gas properties and \$225,000 in wine operations. Major items in Canada included improvements to Montreal bottling lines, additional storage facilities in Saskatoon, additional storage and bottleshop improvements in Vancouver and building alterations and equipment for a new technical development research laboratory in Toronto. The major expenditures at the Cork, Ireland plant of Beamish and Crawford Limited were for additional fermenting facilities and expansion of the brewhouse.

Capital expenditures of approximately \$14,000,000 are planned for 1973. The major projects to be undertaken are the completion of the Cork, Ireland expansion, additional brewing capacity for Vancouver, an increase in storage at the St. Catharines winery, plus further development of oil and gas interests.

Non-current Investments and Other Assets decreased during the year from \$33,804,000 to \$15,910,000. Mortgages with a book value of \$5,565,000 were disposed of for cash. As the result of refinancing, one of the provincial industry distribution companies repaid accumu-

lated advances of \$7,328,000 in cash. Sundry properties comprised of former breweries, related land and other real estate were reduced by \$3,948,000 during the year through the sale of the former Cleveland brewery as well as a number of properties in Canada which were not required for the future needs of your Company. Proceeds of disposal of the Cleveland plant were \$386,000 less than the written down value reflected in the accounts at June 30, 1971 and the additional loss, less applicable income tax adjustment, has been included as an extraordinary charge against earnings for the 1972 fiscal year.

Industrial Relations

New labour agreements were negotiated in Alberta, Newfoundland and Saskatchewan during the year. These agreements, which are all for three year periods, will expire in Alberta on March 31, 1974, Newfoundland on March 31, 1975 and in Saskatchewan on June 30, 1975. The British Columbia agreement which expires on December 31, 1972, is the only major Canadian labour agreement to be renewed in the 1973 fiscal year.

In the United States, new agreements expiring in 1976 have been negotiated at the Atlanta, Belleville, Frankenmuth and Tacoma plants. Agreements at Natick and Baltimore plants will expire in 1973.

Management Change

Wilmat Tennyson was appointed President of your Company on May 26, 1972 to replace

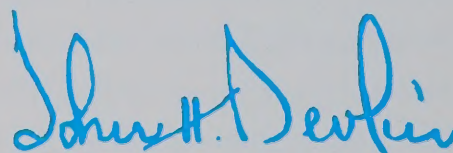
Paul J. Erasmus who resigned. Mr. Tennyson, formerly President of Rothmans of Pall Mall Canada Limited, has served as a Director of Canadian Breweries Limited since June 6, 1968.

General

The Annual Meeting of Shareholders will be held on October 25, 1972. The formal notice of meeting and proxy form are enclosed with this report.

Your Directors and Management were saddened by the passing during the year of J. Innis Carling, O.B.E. Mr. Carling, who contributed much through his long association with the Company, served as a Director for 22 years and was an Honorary Director at the time of his death.

At June 30, 1972, your Company and its subsidiaries employed more than 6,000 men and women in manufacturing plants, sales branches and offices in Canada, the United States and Overseas. On behalf of the Directors I wish to thank these employees for their dedicated and conscientious efforts during the year and to express the appreciation of the Directors to the more than 40,000 shareholders for their loyal support.



*Chairman of the Board and
Chief Executive Officer*

CANADIAN BREWERIES LIMITED

AND SUBSIDIARY COMPANIES

(Incorporated under the laws of Ontario)

Consolidated Statement of Earnings

(in thousands of dollars)

	Year ended June 30	
	1972	1971
Income		
Sales - - - - -	\$404,779	\$396,210
Excise and sales taxes - - - - -	147,905	145,214
	256,874	250,996
Investment and other income - - - - -	6,211	6,109
	263,085	257,105
Costs		
Raw materials and manufacturing expenses - - - - -	156,359	156,257
Marketing and distribution expenses - - - - -	69,546	65,398
Administrative and general expenses - - - - -	17,291	14,401
Interest on long term debt - - - - -	2,212	2,425
Other expenses - - - - -	1,767	1,196
	247,175	239,677
Earnings before income taxes and extraordinary items - - - - -	15,910	17,428
Income taxes		
Current - - - - -	6,149	7,623
Deferred - - - - -	1,131	1,264
	7,280	8,887
	8,630	8,541
Extraordinary items (Note 11) - - - - -	2,005	2,551
EARNINGS FOR THE YEAR - - - - -	\$ 6,625	\$ 5,990
Earnings per common share		
Before extraordinary items (1971 restated) - - - - -	29.7¢	29.2¢
For the year - - - - -	20.5¢	17.5¢

CANADIAN BREWERIES LIMITED
AND SUBSIDIARY COMPANIES

Consolidated Statement of Retained Earnings

(in thousands of dollars)

	Year ended June 30	
	1972	1971
Balance at beginning of year - - - - -	\$ 44,415	\$ 49,278
Earnings for the year - - - - -	6,625	5,990
Excess of par value over cost of preference shares purchased for cancellation	57	37
	<u>51,097</u>	<u>55,305</u>
Dividends paid		
Preference—		
\$2.20 per Series A share and		
\$2.65 per Series B share in 1972 and 1971 - - - - -	2,171	2,185
Common—		
40¢ per share - - - - -	8,705	8,705
	<u>10,876</u>	<u>10,890</u>
Balance at end of year - - - - -	<u><u>\$ 40,221</u></u>	<u><u>\$ 44,415</u></u>

CANADIAN BREWERIES LIMITED
AND SUBSIDIARY COMPANIES

Consolidated Statement of Changes in Working Capital

(in thousands of dollars)

	Year ended June 30	
	1972	1971
Working capital was increased by:		
Earnings for the year - - - - -	\$ 6,625	\$ 5,990
Depreciation - - - - -	8,870	7,924
Deferred income taxes and other non cash items - - - - -	1,084	5,002
Working capital from operations and extraordinary items - - - - -	16,579	18,916
Proceeds from liquidation of United Kingdom investments - - - - -	—	37,948
Proceeds on disposal of:		
Property, plant and equipment - - - - -	1,917	578
Sundry properties - - - - -	3,273	5,128
Mortgages and other assets - - - - -	6,665	2,000
Reduction of investment in associated companies - - - - -	7,635	636
Working capital of Beamish and Crawford Limited - - - - -	—	705
	<u>36,069</u>	<u>65,911</u>
Working capital was decreased by:		
Purchase of subsidiary companies for \$28,545 cash, less working capital at acquisition \$6,514 (Note 2) - - - - -	22,031	—
Additions to property, plant and equipment - - - - -	16,292	12,337
Dividends paid to shareholders:		
Preference - - - - -	2,171	2,185
Common - - - - -	8,705	8,705
Retirement of long term debt - - - - -	3,350	2,797
Redemption of preference shares - - - - -	152	99
	<u>52,701</u>	<u>26,123</u>
Increase (decrease) in working capital - - - - -	(16,632)	39,788
Working capital at beginning of year - - - - -	85,498	45,710
Working capital at end of year - - - - -	<u>\$ 68,866</u>	<u>\$ 85,498</u>

Consolidated Balance Sheet

(in thousands of dollars)

ASSETS	June 30	
	1972	1971
Current Assets		
Cash - - - - -	\$ 14,120	\$ 10,415
Short term investments, at cost which approximates market value - - - - -	33,299	43,443
Accounts receivable - - - - -	26,528	25,687
Recoverable income taxes - - - - -	4,598	3,080
Inventories (Note 3) - - - - -	43,478	39,098
Prepaid expenses - - - - -	3,701	3,469
Total Current Assets - - - - -	<u>125,724</u>	<u>125,192</u>
Property, Plant and Equipment , at cost (Note 4) - - - - -	239,992	209,027
Less accumulated depreciation - - - - -	111,850	102,638
Total Property, Plant and Equipment - - - - -	<u>128,142</u>	<u>106,389</u>
Investments and Other Assets		
Mortgages and other assets (Note 5) - - - - -	8,998	15,434
Associated companies, at lower of cost and estimated realizable value - - - - -	898	8,408
Sundry properties (Note 6) - - - - -	6,014	9,962
Total Investments and Other Assets - - - - -	<u>15,910</u>	<u>33,804</u>
Goodwill , at cost (Notes 1 and 2) - - - - -	<u>8,811</u>	<u>215</u>
APPROVED ON BEHALF OF THE BOARD J. H. DEVLIN, <i>Director</i>		
W. TENNYSON, <i>Director</i>		
	<u>\$278,587</u>	<u>\$265,600</u>

LIABILITIES AND SHAREHOLDERS' EQUITY	June 30	
	1972	1971
Current Liabilities		
Bank indebtedness - - - - -	\$ 4,825	\$ 1,186
Notes payable - - - - -	13,500	—
Accounts payable and accrued liabilities - - - - -	22,385	21,773
Income taxes - - - - -	1,984	4,415
Other taxes - - - - -	11,445	9,598
Dividends payable - - - - -	2,719	2,722
Total Current Liabilities - - - - -	<u>56,858</u>	<u>39,694</u>
Long Term Debt (Note 7) - - - - -	41,210	45,069
Total Liabilities - - - - -	<u>98,068</u>	<u>84,763</u>
Deferred Income Taxes - - - - -	14,904	13,232
Minority Interest (Note 2) - - - - -	2,413	—
Shareholders' Equity		
Capital Stock (Note 8)		
Preference shares - - - - -	44,624	44,833
Common shares - - - - -	78,357	78,357
	<u>122,981</u>	<u>123,190</u>
Retained earnings - - - - -	40,221	44,415
Total Shareholders' Equity - - - - -	<u>163,202</u>	<u>167,605</u>
	<u>\$278,587</u>	<u>\$265,600</u>

CANADIAN BREWERIES LIMITED
AND SUBSIDIARY COMPANIES

Notes to Consolidated Financial Statements

JUNE 30, 1972 AND 1971

1. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and all its subsidiaries. The principal operating subsidiaries are listed on page 20. The results of operations of subsidiaries acquired during the year are included from dates of acquisition. Goodwill of \$8,811,000 arising on acquisition of subsidiaries is not being amortized.

Foreign currency accounts have been translated to Canadian dollars as follows: current items at exchange rates in effect at June 30; other accounts at historical rates; income and costs at average rates for the year except for depreciation which is on the same basis as the related plant and equipment. Translation gains and losses, which amounted to a gain of \$283,000, 1971—loss of \$600,000, are included in earnings.

Certain June 30, 1971 items, including the foreign exchange losses which were shown as an extraordinary item in 1971, have been reclassified to conform with the Company's current financial statement presentation.

2. Acquisition of subsidiaries:

During the year the Company purchased, for cash, all of the outstanding shares of Star Oil & Gas Ltd., (formerly Phillips Brothers Oil and Gas Ltd.), Doran's Northern Ontario Breweries Limited and Doran's Beverage Company Limited and 75 percent of the outstanding shares of Gramercy Holdings Limited. The details of the transactions were as follows:

	Star	Doran's	Gramercy
Effective date of acquisition - - - - -	May 1 /71	Aug. 31 /71	Feb. 29 /72
Net tangible assets acquired at book value - - - - -	\$ 3,014,000	\$ 2,995,000	\$ 8,911,000
Intangible assets acquired at book value - - - - -	—	—	312,000
	3,014,000	2,995,000	9,223,000
Less minority interest - - - - -	—	—	2,306,000
	3,014,000	2,995,000	6,917,000
Excess of purchase price over book value of net assets acquired - - -	7,335,000	805,000	7,479,000
Cash consideration - - - - -	\$10,349,000	\$ 3,800,000	\$14,396,000

The excess of the purchase price of the shares of Star over their underlying net book value at date of acquisition has been added to the value of oil and gas properties and is being accounted for on the basis outlined in Note 4.

The excess of the purchase price of the shares of Doran's and Gramercy over the book values of net tangible assets acquired is included in goodwill in the consolidated balance sheet. The minority interest of \$107,000 in earnings of Gramercy is included in other expenses in the consolidated statement of earnings.

3. Inventories:

	1972	1971
Beverage products, finished and in process - - - - -	\$25,295,000	\$20,650,000
Materials and supplies - - - - -	8,875,000	8,325,000
Containers - - - - -	9,308,000	10,123,000
	\$43,478,000	\$39,098,000

Inventories of beverage products and materials and supplies are stated at the lower of average cost and net realizable value. Containers are recorded at amortized cost which is lower than new replacement cost.

4. Property, plant and equipment:

	1972		1971	
	Assets	Accumulated Depreciation	Assets	Accumulated Depreciation
Land - - - - -	\$ 6,761,000	\$ —	\$ 6,270,000	\$ —
Buildings - - - - -	77,473,000	26,150,000	73,157,000	23,806,000
Machinery, furniture and fixtures - - - - -	132,580,000	79,780,000	121,901,000	73,843,000
Motor vehicles - - - - -	7,959,000	4,998,000	7,338,000	4,875,000
Oil and gas properties - - - - -	13,336,000	549,000	—	—
Leasehold improvements - - - - -	1,883,000	373,000	361,000	114,000
	<u>\$239,992,000</u>	<u>\$111,850,000</u>	<u>\$209,027,000</u>	<u>\$102,638,000</u>

Depreciation is provided generally on the straight-line basis over the estimated useful lives of the assets.

The costs of acquiring interests in developed and undeveloped oil and gas properties and the development costs of productive wells are capitalized. The producing property costs are amortized using the unit of production method over the estimated recoverable oil and gas reserves. Lease rentals, other carrying costs and dry hole costs are charged to expense as incurred. The costs of properties which are abandoned are written off when the leases are surrendered.

5. Mortgages and other assets:

	1972	1971
Mortgages receivable - - - - -	\$ 5,064,000	\$10,764,000
Long term receivables - - - - -	1,834,000	2,005,000
Deferred charges, at amortized cost - - - - -	1,387,000	1,475,000
Other assets, at cost - - - - -	713,000	1,190,000
	<u>\$ 8,998,000</u>	<u>\$15,434,000</u>

Certain mortgages which the Company proposes to sell are recorded at their estimated realizable value.

6. Sundry properties:

These properties comprise former breweries, related land and other real estate which the Company intends to sell or redevelop. They are recorded at the lower of cost and estimated realizable value.

7. Long term debt:

	1972	1971
Sinking fund debentures payable in either Canadian or U.S. funds, at par, at the option of the holder:		
Series A 4¾ % due January 15, 1979 - - - - -	\$ 3,143,000	\$ 4,119,000
Series B 4¼ % due January 15, 1981 - - - - -	6,042,000	6,913,000
Sinking fund debentures payable in Canadian funds:		
Series C 5 % due January 15, 1983 - - - - -	5,991,000	6,487,000
Series D 5½ % due April 1, 1986 - - - - -	10,375,000	11,197,000
Series E 5½ % due April 1, 1989 - - - - -	15,659,000	16,353,000
	<u>\$41,210,000</u>	<u>\$45,069,000</u>

The remaining sinking fund payments required in the next five years are:

1973—Nil; 1974—\$2,610,000; 1975—\$3,800,000; 1976—\$3,800,000; 1977—\$3,800,000.

8. Capital stock:

Details of authorized and issued capital stock are as follows:

	1972	1971
Authorized		
892,485 preference shares with a par value of \$50 each, issuable in series		
30,001,260 common shares without par value		
Issued		
433,745 \$2.20 cumulative redeemable preference shares, Series A - - - - -	\$ 21,687,000	\$ 21,687,000
458,740 \$2.65 cumulative redeemable preference shares, Series B - - - - -	22,937,000	23,146,000
21,762,295 common shares - - - - -	78,357,000	78,357,000
	<u>\$122,981,000</u>	<u>\$123,190,000</u>

The Series A and B preference shares are redeemable at \$53.00 and \$52.50 per share respectively. During the year ended June 30, 1972, 4,180 Series B shares were purchased for cancellation, 1971—2,730 shares.

Under the Company's Stock Option Plan established in 1963 for executives of the Company and its subsidiaries, there were outstanding options on 53,000 common shares at June 30, 1972, 1971—78,000 shares, exercisable up to November 11, 1973 at \$9.74 per share in Canada and \$9.15 U.S. per share in the United States. An additional 447,000 common shares are reserved for use under this Plan.

Rothmans of Pall Mall Canada Limited is the beneficial owner of 50.1 percent of the Company's common shares.

9. Remuneration of Directors and Senior Officers:

Total remuneration of Directors and Senior Officers for the year was \$772,000, 1971—\$810,000.

10. Pensions:

The Company and its subsidiaries maintain a number of pension plans covering substantially all employees. The cost of benefits under the plans are funded as they accrue by way of employee and at least equal company contributions. Prior service costs arising from amendments to the plans and actuarial gains and losses are taken into account by adjusting company contributions over periods approximating the remaining service lives of the employees affected. In addition, the companies are making supplemental payments directly to a number of former employees. The total regular and supplemental pension expense for the year was \$2,947,000, 1971—\$3,232,000.

11. Extraordinary items:

	1972	1971
Loss of \$2,654,000 on disposal of inventory of keg bottles following Government requests to withdraw the bottle from distribution, less applicable income taxes of \$1,276,000 - - - - -	\$ 1,378,000	\$ —
Provision of \$818,000 for flood loss at Baltimore brewery, less applicable income taxes of \$392,000 - - - - -	426,000	—
Costs of \$386,000, 1971—\$8,633,000 arising from closing and sale of the Cleveland brewery, and the resulting transfer of the United States head office facilities to Boston, less applicable income taxes of \$185,000, 1971—\$4,701,000 - - - - -	201,000	3,932,000
Profit on sale of sundry properties - - - - -	—	(2,115,000)
Loss on sale of United Kingdom investments - - - - -	—	3,380,000
Profit on disposal of notes received from 1968 sale of shares in Canadian Equity & Development Company Limited - - - - -	—	(3,541,000)
Writedown of investments, which the Company sold in 1972, to their estimated realizable values - - - - -	—	895,000
	<u>\$ 2,005,000</u>	<u>\$ 2,551,000</u>

12. Commitments and contingent liabilities:

Under a long term agreement with United Breweries Limited of Copenhagen, Denmark dated March 17, 1972, the Company obtained access to the brewing research and technical knowledge of United Breweries Limited, together with the exclusive right to manufacture and sell brewery products under the Carlsberg and Tuborg trade marks in Canada, the United States and the Republic of Ireland. Fixed royalty payments are required quarterly commencing on December 31, 1971 through September 30, 1974 and thereafter on total sales of all brewery products at rates varying with the volume and selling price of the products. The agreement is cancellable after twenty years notice or earlier if certain specified conditions are not fulfilled.

Rentals payable under lease agreements expiring more than three years after June 30, 1972 approximate \$1,204,000 annually. These leases are, for the most part, for periods of from four years to ten years.

The Company is contingently liable for \$1,402,000 with respect to guarantees of bank loans.

Capital expenditures for the year ending June 30, 1973 are expected to aggregate \$14,000,000.

The Company is committed to acquire the remaining shares of Gramercy Holdings Limited at an undetermined future date, on terms established at the date of the initial acquisition.

Price Waterhouse & Co.

chartered accountants

P.O. Box 51 Toronto-Dominion Centre Toronto 111 Ontario

August 15, 1972.

Auditors' Report

TO THE SHAREHOLDERS OF CANADIAN BREWERIES LIMITED:

We have examined the consolidated statements of earnings, retained earnings and changes in working capital of Canadian Breweries Limited and its subsidiary companies for the year ended June 30, 1972 and the consolidated balance sheet as at that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the results of operations and the changes in working capital of the companies for the year ended June 30, 1972 and their financial position as at that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.
Chartered Accountants

CANADIAN BREWERIES LIMITED
AND SUBSIDIARY COMPANIES

FIVE-YEAR FINANCIAL SUMMARY

(in thousands of dollars)

	Year ended June 30			Year ended April 30	
	1972	1971	1970	1969	1968
<i>Operating:</i>	\$	\$	\$	\$	\$
Sales - - - - -	404,779	396,210	408,651	400,610	389,594
Excise and sales taxes - - - - -	147,905	145,214	148,218	146,646	141,466
Sales excluding taxes - - - - -	256,874	250,996	260,433	253,964	248,128
Operating costs - - - - -	234,326	228,132	234,250	224,427	214,533
Other income—net - - - - -	4,444	4,913	5,384	7,386	6,123
Interest on long term debt - - - - -	2,212	2,425	2,567	2,810	3,178
Depreciation and amortization - - - - -	8,870	7,924	7,350	7,726	8,310
Earnings before income taxes - - - - -	15,910	17,428	21,650	26,387	28,230
Income taxes - - - - -	7,280	8,887	10,783	11,948	12,868
Extraordinary charges (credits) less applicable income taxes -	2,005	2,551	(353)	(875)	193
Net earnings - - - - -	6,625	5,990	11,220	15,314	15,169
—as a percent of sales - - - - -	1.6	1.5	2.7	3.8	3.9
—as a percent of sales excluding taxes - - - - -	2.6	2.4	4.3	6.0	6.1
Dividends paid—preference - - - - -	2,171	2,185	2,196	2,257	2,331
—common regular - - - - -	8,705	8,705	8,705	8,705	8,705
—common special - - - - -	—	—	21,762	—	—
Net earnings per common share - - - - -	20¢	17¢	41¢	60¢	59¢
Dividends per common share - - - - -	40¢	40¢	\$1.40	40¢	40¢
<i>Financial:</i>					
Working Capital					
Cash and short term investments - - - - -	47,419	53,858	19,722	49,572	36,386
Other current assets - - - - -	78,305	71,334	64,756	57,740	63,904
	125,724	125,192	84,478	107,312	100,290
Current liabilities - - - - -	56,858	39,694	38,768	31,819	34,130
	68,866	85,498	45,710	75,493	66,160
Ratio - - - - -	2.2	3.2	2.2	3.4	2.9
Total Assets					
Current assets - - - - -	125,724	125,192	84,478	107,312	100,290
Fixed assets—net - - - - -	128,142	106,389	108,172	99,923	111,116
Investments and other assets - - - - -	15,910	33,804	80,110	81,025	80,407
Goodwill - - - - -	8,811	215	—	—	—
Total assets - - - - -	278,587	265,600	272,760	288,260	291,813
Less: Current liabilities - - - - -	56,858	39,694	38,768	31,819	34,130
Long term debt - - - - -	41,210	45,069	48,580	49,300	54,752
Deferred income taxes - - - - -	14,904	13,232	12,808	11,760	10,651
Minority interest - - - - -	2,413	—	—	—	—
Capital employed (shareholders' equity) - - - - -	163,202	167,605	172,604	195,381	192,280
Percentage return on capital employed - - - - -	4.1	3.6	6.5	7.8	7.9
Preference share capital - - - - -	44,624	44,833	44,969	45,296	47,015
Book value per common share - - - - -	\$5.45	\$5.64	\$5.86	\$6.90	\$6.68

FINANCIAL REVIEW

Earnings Analysis

(in thousands of dollars)

	Earnings		% Return on Sales		% Return on Capital Employed	
	1972	1971	1972	1971	1972	1971
Brewing Operations:						
—Canada - - - - -	\$7,114	\$6,459	3.0	2.9	8.9	8.8
—United States - - - - -	(774)	626	(.5)	.4	(1.8)	1.4
—Ireland - - - - -	360	(160)	2.8	(1.8)	4.9	(2.4)
Total Brewing Operations - - - - -	6,700	6,925	1.7	1.7	5.1	5.5
Wine - - - - -	322		8.9		6.6	
Oil and gas - - - - -	263		15.2		1.7	
International - - - - -	170	134				
Investment and other income - - - - -	2,312	2,609			5.1	3.0
Long term debt interest - - - - -	(1,137)	(1,127)			(2.8)	(2.5)
Net earnings before extraordinary items - - - - -	8,630	8,541	2.1	2.1	5.3	5.1
Extraordinary items - - - - -	2,005	2,551	.5	.6		
NET EARNINGS - - - - -	<u>\$6,625</u>	<u>\$5,990</u>	<u>1.6</u>	<u>1.5</u>	<u>4.1</u>	<u>3.6</u>

Analysis of 1972 Sales

(in thousands of dollars)

Brewing Operations:		
—Canada - - - - -	\$237,128	58.6%
—United States - - - - -	148,253	36.6
—Ireland - - - - -	12,819	3.2
Total Brewing Operations - - - - -	398,200	98.4
Wine - - - - -	4,845	1.2
Oil and Gas - - - - -	1,734	.4
	<u>\$404,779</u>	<u>100.0%</u>

Allocation of 1972 Beverage Sales Dollar

Taxation - - - - -	\$0.39
Materials and manufacturing expenses - - - - -	0.26
Salaries, wages and fringe benefits - - - - -	0.16
Marketing, distribution, administrative and other expenses - - - - -	0.15
Depreciation - - - - -	0.02
Earnings before extraordinary items - - - - -	0.02
	<u>\$1.00</u>

*Principal operating
subsidiary companies:*

CANADA

THE BENNETT BREWING COMPANY, LIMITED
CALGARY BREWING AND MALTING COMPANY LIMITED
THE CARLING BREWERIES LIMITED
DORAN'S NORTHERN ONTARIO BREWERIES LIMITED
O'KEEFE BREWING COMPANY LIMITED
WILLIAM DOW BREWERY LIMITED
JORDAN WINES LIMITED
VILLA WINES LIMITED
STAR OIL & GAS LTD.

UNITED STATES

CARLING BREWING COMPANY INCORPORATED
CENTURY IMPORTERS INC.

REPUBLIC OF IRELAND

BEAMISH AND CRAWFORD LIMITED

Executive Offices:

79 ST. CLAIR AVENUE EAST, TORONTO 7, CANADA

Auditors:

PRICE WATERHOUSE & CO.

Bankers:

THE ROYAL BANK OF CANADA
BANK OF MONTREAL
CHEMICAL BANK—NEW YORK

Registrars:

IN CANADA

MONTREAL TRUST COMPANY

IN THE UNITED STATES

MORGAN GUARANTY TRUST COMPANY OF NEW YORK

Transfer Agents:

IN CANADA

NATIONAL TRUST COMPANY, LIMITED
Ontario, Quebec, Manitoba, Alberta and British Columbia
CANADA PERMANENT TRUST COMPANY
New Brunswick and Nova Scotia
THE CANADA TRUST COMPANY
Saskatchewan

IN THE UNITED STATES

THE CHASE MANHATTAN BANK

